THE LEGISLATIVE ASSEMBLY OF
BRITISH COLUMBIA

SELECT STANDING COMMITTEE ON CROWN CORPORATIONS

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February 7, 2005

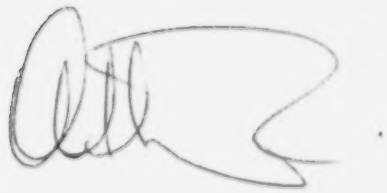
To the Honourable,
Legislative Assembly of the
Province of British Columbia
Victoria, British Columbia

Honourable Members:

I have the honour to present herewith the *Second Report* of the Select Standing Committee on Crown Corporations

The *Second Report* covers the Committee's reviews of British Columbia Hydro and Power Authority, Insurance Corporation of British Columbia, and British Columbia Transmission Corporation.

Respectfully submitted on behalf of the Committee.



Ken Stewart, MLA
Chair

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COMPOSITION OF THE COMMITTEE

Members

Ken Stewart, MLA	Chair	Maple Ridge-Pitt Meadows
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Clerk to the Committee

Craig James, Clerk Assistant and Clerk of Committees

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Jonathan Fershau, A/Committee Research Analyst

TERMS OF REFERENCE

On April 1, 2004, the Select Standing Committee on Crown Corporations was appointed to review the annual reports and service plans of British Columbia Crown Corporations.

In addition to the powers previously conferred upon the Select Standing Committee on Crown Corporations, the Committee be empowered:

(a) to appoint of their number, one or more subcommittees and to refer to such subcommittees any of the matters referred to the Committee;

(b) to sit during a period in which the House is adjourned, during the recess after prorogation until the next following Session and during any sitting of the House;

(c) to adjourn from place to place as may be convenient; and

(d) to retain personnel as required to assist the Committee,

and shall report to the House as soon as possible or following any adjournment, or at the next following Session, as the case may be; to deposit the original of its reports with the Clerk of the Legislative Assembly during a period of adjournment and upon resumption of the sittings of the House, the Chair shall present all reports to the Legislative Assembly.

COMMITTEE REVIEW PROCESS

On April 1, 2004, the Legislative Assembly approved a motion instructing the Select Standing Committee on Crown Corporations to review the annual reports and service plans of British Columbia's Crown corporations. In its oversight role, the main objectives of the Committee are to enhance the accountability and improve the performance reporting of Crown corporations.

During the fifth session of the 37th Parliament, the Committee held nine meetings, including an orientation meeting on April 21, 2004 and a planning session one week later on April 28. After reviewing the presentations made by the Liquor Distribution Branch (May 18), Forestry Innovation Investment Ltd. (July 12), and Land and Water British Columbia Inc. (September 9), the Committee deliberated on the content of its first report on December 6. The *First Report* was deposited with the Clerk of the House on December 23, 2004.

For its second report, the Committee chose to review the annual reports and service plans of three major Crown corporations regulated by the British Columbia Utilities Commission — British Columbia Hydro and Power Authority (November 3), Insurance Corporation of British Columbia (December 1), and British Columbia Transmission Corporation (December 6). The Committee met to discuss its second report on February 7, 2005.

For both the British Columbia Hydro and Power Authority (BC Hydro) and the Insurance Corporation of British Columbia (ICBC), this report marks the second time these Crowns have appeared before the Committee during this Parliament. The committee's initial review of the service plans and annual reports of these Crowns may be found in its *Second Report* of the fourth session of the 37th Parliament, released in November 2003.

As part of the review process, senior officers from the selected Crowns appear before the Committee to present the corporations' latest annual report and service plan. To assess each Crown, committee members consider the 11 key reporting principles contained in the Committee's *Guide to Operations* (See Appendix A). Committee members also have the opportunity to discuss with senior officers issues of concern or interest arising from the corporation's presentation to the Committee. In addition, Members may submit additional questions to the witnesses through the Office of the Clerk of Committees.

Minutes and transcripts of committee proceedings, as well as previous committee reports, are available at http://www.leg.bc.ca/cmt. We would like to acknowledge the cooperation of the senior officers who appeared before the Committee and look forward to the opportunity to meet with them again for future review.

REVIEW OF BRITISH COLUMBIA HYDRO AND POWER AUTHORITY

On November 3, 2004, the Select Standing Committee on Crown Corporations met with senior officials of the British Columbia Hydro and Power Authority (BC Hydro) and reviewed the following documents:

- BC Hydro, *Annual Report 2004*.
- BC Hydro, *Service Plan for Fiscal Years 2004/2005 to 2006/2007*.

Following the review, committee members requested that BC Hydro provide the Committee with the following additional information:

- legal costs associated with trading in the California energy market,
- role of independent power producers,
- an overview of power generation supply and demand on Vancouver Island,
- workforce retention strategy,
- consultations with First Nations, and
- an overview of the potential acquisition of Columbia Power Corporation, with reference to ongoing legal proceedings.

This review marks the second time BC Hydro has appeared before the Committee during the 37th Parliament. In our November 2003 report, the Committee highlighted several issues for ongoing review, including: the role of independent power producers in future power generation; Vancouver Island power generation; Accenture Business Services relationship with BC Hydro; workforce demographics; and Powerex's exposure to Federal Energy Regulatory Commission proceedings.

Committee Observations

In reviewing BC Hydro, the Committee considered the 11 key reporting principles in its *Guide to Operations* (see Appendix A). During their internal deliberations, committee members made the following observations:

1, 2, 4. Committee members were satisfied that the service plan adequately explains BC Hydro's mandate, core products and services, operating environment and major challenges; that the plan focuses on aspects of performance that are critical to the organization achieving its goals objectives and intended results; and that the intended level of performance for the planning period is specified.

3, 9. Members were also satisfied that the goals and objectives are well defined; that they are consistent with and support of the achievement of the mandate and that the planned contribution of key activities to intended results is adequately demonstrated.

5-7. The Committee was only partially satisfied that the intended results are clear, measurable, concrete and consistent with goals and objectives; that the intended results represented a reasonable level of achievement; and that the plan demonstrates how resources and strategies will influence results.

Two performance measures were perceived as requiring further clarity. First, Members expressed some reservations that the anticipated expansion of the Power Smart program will produce the desired outcomes. The Committee will monitor BC Hydro's bi-annual reports to the British Columbia Utilities Commission concerning the performance of the Power Smart program. In referencing page 24 of the *2004 Service Plan*, the Committee also requests that BC Hydro develop performance measure that details the average cost per conserved gigawatt through the Power Smart program.

Second, although the Committee acknowledges that BC Hydro has had success in retaining employees at or near retirement, Members would like to see a performance measure that details the number of strategic workforce positions required versus the number of "approved strategic workforce positions filled." (Page 25, 2004 *Service Plan.*)

8. Members were satisfied that the financial and non-financial performance measures provided by BC Hydro give an integrated and balanced picture of intended performance.

10. Members were satisfied that actual (annual report) and intended (service plan) performances are set out in clear comparison.

11. Members were only partly satisfied that the core principles enunciated by government policies are evident in the planning and operations of BC Hydro. Some Members expressed concerns that BC Hydro was unduly hindering independent power producers from providing clean and renewable energy to both BC Hydro and large consumers of electricity.

Issues for Future Review

Arising from its second review of BC Hydro, the Committee identified the following issues for ongoing monitoring and future review:

- workforce demographics,
- Accenture Business Services for Utilities,
- independent power producers,
- electricity generation projects ,
- Power Smart performance measures, and
- United States court decisions.

The Committee also canvassed the witnesses on the following topics: power generation on Vancouver Island; energy consumption patterns in British Columbia, an overview of the Heritage Contract (Special Direction No. HC2), consultations with First Nations, and BC Hydro's current debt levels.

Workforce demographics

Stemming from the Committee's first review — which identified the challenge of aging workforce demographics in BC Hydro — committee members sought an update on BC Hydro's efforts to attract new workers and retain employees near to receiving a full pension.

In a written response, BC Hydro indicated that it faces competition for recruiting some specialist engineering positions and certain skill trades. Since 2000, BC Hydro has recruited more than 300 trainees for critical, electrical positions.

With respect to employees nearing retirement, BC Hydro has been successful in retaining its skilled workers on staff. At present, 18 percent of BC Hydro's workforce is eligible to retire with an unreduced pension; however, only a small percentage of this group (15 percent or 96 employees) has actually retired. Currently, the retirement patterns work in BC Hydro's favour, with the lowest retirement rates occurring in occupations relating to electrical operations.

Accenture Business Services for Utilities

Referring to BC Hydro's first appearance before the Committee in June 2003, committee members requested an update on whether Accenture Business Services for Utilities (ABSU) was paying royalties to BC Hydro for the provision of its model of back-office services and billing support services to other utility companies. In addition, Members asked for a summary of ABSU's current employment levels in British Columbia.

The chief executive officer replied that BC Hydro does receive founding partner benefits from its relationship with ABSU. In a follow-up response, BC Hydro wrote that since the signing of the agreement between BC Hydro and Accenture in April 2003, three major agreements with other energy providers for back-office services have been negotiated, of which BC Hydro receives an unspecified royalty.

With respect to the number of employees, the Committee learned that 1,550 BC Hydro employees were transferred to ABSU. Employees based in British Columbia perform work pertaining to BC Hydro support services. In total, Accenture Business Services for Utilities currently employs more than 3,300 employees across North America.

Independent power producers

In the Committee's previous report, Members raised several questions concerning the BC Hydro's relationships with independent power producers (IPPs). In particular, the Committee made two recommendations relating to BC Hydro's role in promoting IPPs in the province: first, to clarify BC Hydro's internal selection criteria for choosing IPPs; and second, to increase opportunities for IPPs to sell to BC Hydro.

During the 2004 pre-budget consultation process, the Independent Power Producers Association of British Columbia (IPPABC) submitted a brief entitled "Costs of Importing Electricity."[1] In their paper, IPPABC provides three reasons for BC Hydro to cultivate relationships with IPPs, including a theoretical after-tax savings, cleaner generation, and greater security and reliability than what is available from imported power. Committee members requested that BC Hydro respond to the claims made in the IPPABC report.

BC Hydro provided the following written response:

> *Because of the nature of our system and to benefit our customers, BC Hydro imports electricity and purchases power from Independent Power Producers (IPPs). The*

[1] Independent Power Producers Association of British Columbia, (2004), "Costs of Importing Electricity," Submission made to the Select Standing Committee on Finance and Government Services. (Submission number: FGS-Sub-447).

purchases from IPPs add to our existing supply of electricity and make sure we have enough to meet our customers' needs, both all year and during those peak times when demand is the highest.

Consistent with the provincial Energy Plan, the majority of new electricity supply will come from the private sector. However, imports will also continue to play an important role in a number of ways. There will always be times – at night, for example, or at certain times of the year – when it is cheaper to import electricity to meet our needs than it is to generate it ourselves. Doing so makes sense for our customers, as this helps keep our costs – and their rates – as low as possible. During very dry sequences, we may also need to import electricity to add to our existing supply. Finally, Powerex, our electricity trade subsidiary, regularly imports electricity that it then "re-sells" at a higher price to make revenue for the province.

BC Hydro is carefully examining the amount that we import and, looking forward, has adopted a twenty- year goal of being self-sufficient from a domestic electricity generation perspective. This means that even under low water conditions, we would still have enough electricity available from B.C. resources to meet our needs. We will be looking to the private sector to supply most of this additional electricity. But even with their support, imports – for the reasons given above – will always play a role, as that is in the best interests of our customers.

Electricity generation projects

Declining average cost of generation

Committee members observed that BC Hydro anticipates the average cost of generating one megawatt of power to decrease from $22.33 in 2003 / 2004 to $20.43 in 2006 / 2007. Recognizing the need for increased generation capacity and power imports, Members questioned the witnesses as to whether this performance measure was obtainable.

The chief executive officer replied that given average water levels, generating cost would decrease as a result of improved productivity of existing generating assets. In addition, a gradual increase in the trading revenues generated by Powerex will serve to offset generation costs. However, the performance target does not include costs associated with purchasing power from new sources, such as is required for Vancouver Island.

Green projects

Committee members also inquired about BC Hydro's commitment to promote and develop clean energy production. In particular, Members requested information on whether BC Hydro had committed to providing "green energy rates" to producers utilizing energy from clean or renewable sources, and whether an adequate supply of green energy existed to meet current demands.

With respect to incentives offered to green energy producers, the witness reported that programs such as power generation from municipal solid waste have allowed the Greater Vancouver Regional District to acquire "green credits." At present, the demand for purchasing green energy outmatches the current supply. BC Hydro does not have a similar program in

place for residential consumers to purchase green energy; however, it is planning to revisit this issue when BC Hydro redesigns it rates for residential consumers.

The chief executive officer also declared that an ongoing challenge is whether the existing energy plan provides enough flexibility to incorporate higher-cost green energy projects while balancing demands for low energy rates.

Burrard Thermal Generating Plant

Members also requested information on the future operations of BC Hydro's Burrard Thermal Generating Plant as well as it current level of use.

The chief executive officer replied that Burrard Thermal provides additional generation capacity during periods of peak demand. Although the plant is less efficient and more expensive to operate than other BC Hydro power-generating facilities, it is remains a beneficial asset in that it can provide electricity on short notice. At present, Burrard Thermal is scheduled to reach the end of its productive life in 2015.

In additional written material provided to the Committee, BC Hydro indicated that the number of generating days of Burrard Thermal has significantly declined, from approximately 350 generating days in 2001, to approximately 100 generating days in 2004.

Peace River Site C dam

Several Members asked the witness to provide an overview of BC Hydro's work to date on examining the potential for a Peace River Site C dam.

The chief executive officer confirmed that the Site C dam project is a generating asset that BC Hydro is tentatively examining for development. The witness also stated that any Site C development would be an "iterative process," and require negotiations and approval from cabinet and the British Columbia Utilities Commission. In addition, the witness said that BC Hydro will continue to work on a proposal to develop the Site C dam, in conjunction with several smaller generation projects to meet the future energy demands of the province.

Power Smart performance measures

Members observed that a critical component of BC Hydro's future plans revolves around maintaining or reducing energy consumption, particularly through the use of Power Smart programs. Noting the significant ramp-up in expenditures relating to the Power Smart (from $44.3 million in fiscal 2003 to approximately $100 million in fiscal 2005 and 2006), Committee members sought information on whether the current goals and objectives relating to the Power Smart program were realistic, given its historical performance and BC Hydro's success vis-à-vis the performance of similar organizations.

The witness responded that Power Smart incorporates a variety of demand side management programs designed to reduce energy consumption. BC Hydro has "a high level of confidence in the results of the program," particularly programs that target large customers, in which demonstrated energy savings can be shown through metering. Other programs designed to reduce energy consumption have more "subjective" outcomes and require more rigorous testing to show actual results.

The witness also acknowledged that the British Columbia Utilities Commission has ordered BC Hydro to submit detailed descriptions of demand side management "portfolio cost and allocation levels," and "summaries of the overall performance of Power Smart with reference to program objectives."[2]

United States court decisions

Noting a recent decision by the US Ninth Circuit — in which the court commented that the Federal Energy Regulatory Commission (FERC) erred when it absolved 60 power-trading companies for trading in the California energy market — members of the Committee asked the witnesses to outline the potential liability with respect to BC Hydro's energy marketing arm, Powerex. In addition, Members requested that the witnesses account for the costs associated with Powerex's trading in California.

In response, the chief executive officer stated BC Hydro is potentially liable for approximately $1 billion as a result of trading in the California energy market. However, the witness stressed that the US Ninth Circuit court decision has not increased BC Hydro's exposure to liability claims, and that it is only one decision in series of complicated legal proceedings. The witness anticipates that the FERC will be required to hold evidentiary hearings pertaining to Powerex's trading activities — if it does not, then BC Hydro will appeal to have evidentiary hearings held. Even if BC Hydro's appeal requests are unsuccessful, the witness believes they have an excellent case for a NAFTA trade panel.

In a written response, BC Hydro asserted that the total legal and consulting costs to date associated with Powerex — whether related to California-related issues, Federal Energy Regulatory Commission, Enron or Alcan matters — have amounted to approximately $30 million since fiscal 2001.

Committee Recommendations

Recommendation No. 1:

The Committee recommends that British Columbia Hydro and Power Authority implement the Committee's observations and suggestions for improving BC Hydro's future annual reports and service plans — particularly with respect to key reporting principles #5, 6, 7 and 11.

Recommendation No. 2:

The Committee recommends that British Columbia Hydro and Power Authority continue to develop programs to ensure that it has qualified engineers and skilled tradespersons to meet its future needs relating to electrical operations.

Recommendation No. 3:

The Committee continues to recommend that as per its mandate, British Columbia Hydro and Power Authority be required to increase opportunities for independent power producers in the province — particularly proposals which promote reliable and clean power generation.

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[2] British Columbia Utilities Commission. (2004). British Columbia Hydro and Power Authority 2004/05 to 2005/06 Revenue Requirements Application. pp. 201-202. Available online at http://www.bcuc.com/Documents/Decisions/2004/DOC_5432_BCH%202004RR%20Final.pdf

Recommendation No. 4:

The Committee recommends that British Columbia Hydro and Power Authority develop clear and measurable performance indicators to ensure that the increased expenditures in the Power Smart program are achieving the desired results.

Recommendation No. 5:

The Committee recommends that British Columbia Hydro and Power Authority continue to protect its interests pertaining to unjust litigation from the United States.

REVIEW OF INSURANCE CORPORATION OF BRITISH COLUMBIA

On December 1, 2004, the Select Standing Committee on Crown Corporations met with senior officials of the Insurance Corporation of British Columbia (ICBC) and reviewed the following documents:

- Insurance Corporation of British Columbia, *Annual Report 2003.*
- Insurance Corporation of British Columbia, *Service Plan 2004 – 2006.*

This review marks the second time that ICBC has appeared before the Committee during the 37th Parliament. In our November 2003 report, the Committee highlighted several issues for ongoing review, including: tax exemptions provided to ICBC as a provincial Crown; management of financial reserves; regional road safety concerns; and performance indicators.

Committee Observations

In reviewing the Insurance Corporation of British Columbia, the Committee considered the 11 key reporting principles in its *Guide to Operations* (see Appendix A). During their internal deliberations, committee members made the following observations:

1. The Committee was only partly satisfied that the Insurance Corporation of British Columbia's annual report and service plan adequately explains the organization's mandate, core products and services, operating environment and major challenges. In particular, Members note the annual report does not provide adequate information on the non-insurance services provided by ICBC, particularly regarding enforcement support, road improvements and road safety planning.

2, 3. Members were satisfied that the service plan focuses on aspects of performance that are critical to ICBC achieving its goal, objectives and intended results, and that the goals and objectives are well defined and consistent with and supportive of the achievement of its mandate.

4, 7. Committee members were satisfied that the intended level of performance for the planning period is specified and that the plan demonstrates how resources and strategies will influence future results.

5, 6. Members were only partly satisfied that ICBC's intended results are clear, measurable and consistent with the goal or objectives, given historical performance, resources available, and performance of similar organizations. While committee members were pleased to see that ICBC's education programs fare well against jurisdictions with comparable automobile insurance structures, Members would like to see summary results of this comparative analysis provided in future reports.

In addition, given that ICBC has undertaken comparative work on education programs *in other jurisdictions with comparable programs*, committee members request ICBC conduct a detailed report on whether current staffing levels are appropriate, vis-à-vis agencies with similar mandates.

8. While committee members were satisfied that the financial performance measures provided give an integrated and balanced picture of intended performance, Members noted that both the annual report and service plan lacked measures pertaining to employee staffing, satisfaction, or development.

9. The Committee was satisfied that the planned contribution of key activities to intended results or goals/objectives is adequately specified.

10. Members were satisfied that that the actual (annual report) and intended (service plan) performances are set out in clear comparison.

11. Members were satisfied that the relevant core principles enunciated by government policies are evident in the planning and operations. Some Members noted ICBC's commitment to building up financial reserves to support its optional insurance services and the coordination with the Office of the Superintendent of Motor Vehicles on the Drinking Driving Initiative as improvements made since the last time ICBC appeared before the Committee.

Issues for Further Review

Arising from this second review, the Committee identified the following issues for ongoing monitoring and future review:

- insurance premiums,
- road safety programs,
- rural issues,
- automobile repairs, and
- staffing requirements.

The Committee also canvassed the witnesses on the following topics: facility insurance; cost containment of personal injury claims; an evaluation of ICBC's board of governors; windshield replacement costs; repair cost analysis; a marginal increase in administrative costs; insurance coverage for electric powered transportation devices; comparative insurance rates; and the success of roundabouts on numbered highways.

Insurance premiums

Optional insurance competition

Several Members made inquiries into the level of competition faced by ICBC by private sector automobile insurance providers in the optional insurance market. In particular, Members sought information on whether ICBC would adopt differential rates for its optional insurance coverage.

The president and chief executive officer informed the Committee that private insurers hold approximately $150 million of the approximate $1.5 billion optional insurance market. The witness added that private sector competitors have not significantly increased their penetration into the optional insurance market.

In regard to differential category rates, the witness responded that ICBC does not see the need to set either basic or optional insurance rates on the basis of age, sex, or marital status.

British Columbia Utilities Commission role

Committee members inquired into the role the British Columbia Utilities Commission (BCUC) plays in establishing both basic and optional insurance premiums. In particular, Members requested information on whether ICBC has plans to subsidize optional insurance rates with premiums collected under basic insurance.

In response, the witness stated that BCUC is responsible for examining the basic insurance rates and practices of ICBC, and that BCUC does not examine the rates of optional coverage provide by either ICBC or private insurers.

Under Special Direction IC2, the government has ordered the Utilities Commission (by regulation) to ensure that there cannot be any cross–subsidization between the optional and basic insurance operations. In essence, the optional and basic insurance business lines must be provided and managed as separate entities. BCUC has recently approved ICBC's plan to separate the two business lines.

Agents' commissions

Several Members observed that commissions paid by ICBC to insurance agents had increased by $27.7 million (15 percent) from 2002 to 2003, while vehicle premiums written increased by $218 million (8 percent). Committee members requested that the witnesses provide information detailing both the commissions paid for basic and optional insurance coverage and additional premiums underwritten by ICBC.

In a written response, the chief financial officer explained that two factors influenced the higher payouts to agents. Primarily, the increase of $27.7 million paid to agents was due to the increase in the dollar value of optional insurance policies sold. While revenue generated from the sale of basic insurance coverage increased by 4 percent, optional insurance premiums increased from $151 million to $176 million (17 percent).

In addition, the average commission paid to agents for optional premiums sold was increased to 13.5 percent in 2003 from 13.1 percent in 2002. This increase of 3 percent was result of the fact that the sales of optional coverage are paid based on driver experience and the level of risk. Roadside Gold policies — which are available to ICBC's lowest risk customers based on their lengthy safe driving record — attract the highest commission rate offered to agents. In 2003, Roadside Gold policies written increased by 25 percent over 2002 sales figures.

Road safety programs

Comparative evaluation

Members requested information on ICBC's road safety programs. Specifically, they requested that ICBC elaborate on its public education role and discuss how its road safety and public education programs compare to claim reduction strategies in other jurisdictions.

In a written response, ICBC provided the Committee with an overview of its investments in road safety, auto crime prevention and fraud prevention programs. Annual investment in these programs in recent years has ranged from $38 million to $59 million. It is estimated that ICBC will spend $46.2 million in 2004.

ICBC also provided the Committee with a 2004 Ference Weiker & Co. survey of the effectiveness of ICBC's road safety and loss management programs vis-à-vis eight other leading

jurisdictions with similar programs in place. Using ICBC's 2003 program spending as a baseline ($38.086 million, which represents the lowest contribution to road safety programs over the last four years), the report made several conclusions:

- With a per capita investment of $8.59 (2003) in road safety programs, ICBC was above the median per capita spending of jurisdictions with similar programs in place. (Included in the survey were Manitoba, Saskatchewan, Maryland, Florida, and California).
- Overall, ICBC uses excellent problem identification practices. In comparison to many provincial and state jurisdictions, ICBC is hampered by the lack of crash causation data, but offsets this problem to some degree through the use of its comprehensive claims database.
- ICBC uses more rigorous and conservative investment decision methodologies than all other jurisdictions investigated for its safety engineering programs.
- ICBC also uses more rigorous decision processes for its enforcement programs than the other jurisdictions contacted. All large projects/programs require a minimum estimated benefit / cost ratio of two.
- Pertaining to driver education programs, ICBC spends less per capita than other comparable Canadian jurisdictions, but offered among the most comprehensive array of educational products.[3]

Enforcement

Committee members made inquires into the role of ICBC in providing and funding enhanced enforcement, particularly relating to impaired driving and rehabilitation programs.

In response, the director of communications stated that ICBC will work with the Office of the Superintendent of Motor Vehicles (OSMV) in providing several components of the rehabilitation program of the Drinking Driving Initiative, including: fielding calls from participants on the status of their licence; entering convictions and adding prohibitions to client records; generating "fail to comply" notices and holding drivers licences as required; providing daily lists of triggered participants to OSMV as well as the ability to print drivers abstracts; and entering and processing data for violation tickets received by rehabilitation clients who continue to drive while prohibited.

The estimated start-up costs for ICBC to provide these services are approximately $100,000, with ongoing costs of $126,000 per year.

Rural vehicle insurance issues

Several Members expressed frustration with the level of insurance coverage provided to people living in rural areas of the province. Members relayed constituents concerns that ICBC was refusing to insure rural residents who had incurred additional expenses due to animal collisions or extensive windshield damage from gravel on provincial highways. The Committee requested information on whether ICBC was collaborating with the Ministries of Transportation and Water, Land and Air Protection to reduce claims costs particular to rural areas.

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[3] Ference Weiker & Company, (2004), Assessment of Investment Decisions and Evaluation Processes used for the Road Safety and Loss Management Programs of ICBC. Submitted in conjunction with ICBC's filing to the British Columbia Utilities Commission hearing dated July 5, 2004.

The chief executive officer replied that ICBC has a good track record on addressing road safety issues in rural areas, but that it does not make business sense to continue to subsidize drivers who consistently make claims higher than the cost of the insurance product. The chief operating officer also added that he was willing to work with other ministries to address specific problems. He pointed to a recent project in which ICBC paired with the Ministry of Transportation to install 15 kilometres of reflectors to discourage animal encroachment on the highways.

With respect to claims made for windshield damage, the witness responded that at present, ICBC does not have plans to remove all glass coverage from its optional comprehensive coverage. However, the chief operations officer added that ICBC may consider providing customers a product in which glass coverage under a comprehensive insurance package is not provided. By excluding glass coverage, consumers in rural areas may be able to obtain lower premiums.

In additional written material provided to the Committee, the witnesses added that British Columbia is divided into fourteen distinct territories, so as to ensure that that the price paid in a region is reflective of claims experience. Furthermore, to help ensure that premium costs are reasonably controlled for customers in each region, ICBC has begun to underwrite the minimum deductible offered to some customers in each region, whose historic claims experience has forced their neighbours to pay more than a fair amount for their insurance.

Automobile repairs

Claims centres infrastructure model

Noting that representatives from ICBC regularly re-evaluate claims at autobody shops, Members asked the witnesses whether alternative delivery models for assessing automobile claims were under development.

The chief operating officer responded that ICBC is currently in a transition phase — moving from a claims centre model to one where authorized body shops can write an estimate without the vehicle going to a claims centre. The *Express Repair* model has resulted in fewer claims being processed at claims centres, allowing ICBC to close five claims centres across the province.

ICBC currently maintains 41 claims centres and is currently "re-engineering" the claims process to better meet customer needs. The witness stated that claims centres would likely take on new forms, depending on community demands.

Payments to autobody shops

Stemming from several complaints over compensation rates paid to autobody shops by ICBC, Members asked the witnesses to elaborate on the new payment model for vehicle repair services.

The witnesses replied that ICBC, in conjunction with the Automotive Retailers Association and the New Car Dealers of BC, developed a performance-based compensation model that promotes a sustainable system for setting rates for the repair industry. The new model considers three performance measures: a one-year rolling average repair costs for a particular shop; the cycle time in which it takes to repair a vehicle; and a customer satisfaction survey.

The chief operating officer also added that the compensation model has experienced "growing pains." However, ICBC committed that it will work with the industry to ensure fair compensation to the autobody shops while promoting an incentive structure that promotes stable costs and improved customer satisfaction.

Staffing requirements

Several Members remarked that despite an approximate 26 percent reduction in staffing, customer service satisfaction scores have slightly increased. Members requested that the witnesses provide information on the distribution of full-time-equivalent reductions across the province, as well as the cost savings that accrued to the Corporation as a result.

The witnesses responded that with the combination of a voluntary severance program and the transfer of 286 compliance operations employees back to government, ICBC has developed a more customer-focused model in handling injury and vehicle claims. Programs such as Expressways and the improved functionality of call centres have resulted in better customer service ratings.

In a written response, the chief financial officer declared that between the fourth quarters of fiscal 2000 and 2003, actual staff reductions were 1,682 — resulting in a net cost savings of approximately $93 million, including benefits. ICBC has agreed to pay the Province $24.7 million a year (for three years) to cover the compensation and operating costs of the 286 compliance operations staff, producing a net savings of $16 million relating to non-insurance operating costs.

Committee Recommendations

Recommendation No. 6:
The Committee recommends that the Insurance Corporation of British Columbia implement the Committee's observations and suggestions for improving ICBC's future annual reports and service plans — in particular with respect to key reporting principles #1, 5, 6 and 8.

Recommendation No. 7:
The Committee recommends that the Insurance Corporation of British Columbia continue to work closely with the Ministries of Transportation and Water, Land Air Protection to develop a comprehensive strategy to reduce collisions between automobiles and wildlife.

Recommendation No. 8:
The Committee recommends that the Insurance Corporation of British Columbia continue to work closely with the Ministry of Transportation on ways to minimize windshield damage from gravel.

Recommendation No. 9:
The Committee recommends that the Insurance Corporation of British Columbia continue its work to provide enhanced customer satisfaction while reducing its reliance on fixed claims centre infrastructure model.

Recommendation No. 10:
The Committee recommends that ICBC conduct a comparative analysis of staffing levels vis-à-vis the agencies listed in the Ference Weiker & Co. 2004 survey on road safety and loss management programs.

REVIEW OF BRITISH COLUMBIA TRANSMISSION CORPORATION

On December 6, 2004, the Select Standing Committee on Crown Corporations met with senior officials of the British Columbia Transmission Corporation (BCTC) and reviewed the following documents:

- British Columbia Transmission Corporation, *Annual Report 2004.*
- British Columbia Transmission Corporation, *Service Plan 2004 – 2007.*

Committee Observations

In reviewing British Columbia Transmission Corporation, the Committee considered the 11 key reporting principles in its *Guide to Operations* (see Appendix A). During their internal deliberations, committee members made the following observations:

1. The Committee was satisfied that the British Columbia Transmission Corporation's service plan adequately explains the organization's mandate, core products and services, operating environment and major challenges. In particular, Members stated that they were pleased that BCTC has plans for improving service reliability throughout the province.

2. Committee members were satisfied that the plan focuses on aspects of performance that are critical to the organization achieving its goals, objectives and intended results. Members observed that BCTC has recognized and planned for increased transmission capacity.

3-5. Members were satisfied that the goals, objectives are well defined and supportive of BCTC's mandate; that the intended level of performance is specified; and that the intended results are presented in a clear, measurable, and consistent manner.

6. While recognizing that BCTC was a relatively new organization, the Committee was only partially satisfied that the service plan demonstrated a reasonable level of achievement given resources available to the organization and performance of similar organizations. Noting BCTC's involvement in Grid West, committee members request that BCTC examine the feasibility of including comparative performance measures pertaining to system reliability vis-à-vis other participants in the regional transmission association. In addition, Members stated that they await BCTC's development of "value creation" performance measures: particularly evaluating BCTC's success in "relationship development with market participants (concerning) threats and opportunities." (British Columbia Transmission Corporation, *Service Plan 2004-2007*, p. 10)

7. Overall, the Committee was satisfied that the service plan demonstrates how resources and strategies will influence results

8, 10. The Committee found that the financial and non-financial performance measures given provide an integrated and balanced picture of intended results and that BCTC's annual report and service plan are set out in a clear comparison.

9. The Committee was only partly satisfied that the planned contribution of key activities to intended results is adequately demonstrated. Members felt that a general explanation of the relationship between BCTC and the British Columbia Utilities Commission would be of value in the annual report.

11. In general, Members felt that the relevant core principles enunciated by government policies were evident in the planning and operations of BCTC.

Issues for Further Review

Arising from its initial review, the Committee identified the following issues for ongoing monitoring and future review:

- asset management and ownership,
- planned capital investments,
- BC Clean Rate,
- British Columbia Utilities Commission process, and
- transmission market integration

The Committee also canvassed the witnesses on the following topics: representation on the BCTC Board of Governors; BCTC conflict-of-interest guidelines; human resource practices, the current status of BCTC pension plans; and line maintenance contracts.

Asset management and ownership

Members asked the witnesses to clarify the roles and responsibilities of BCTC with respect to transmission asset management and ownership.

In his presentation, the board chair specified that BCTC is responsible for the reliability and maintenance of the transmission system and grid operations; designing and administering the wholesale transmission tariff; planning the development of the transmission system so that it is prepared for the future requirements of British Columbia; and with the British Columbia Utilities Commission's approval, the direct investment in transmission projects.

With respect to ownership of the transmission assets, the Chair of BCTC responded that the ownership and debt costs associated with the transmission assets continues to reside with BC Hydro. However, the witness also confirmed that he anticipates that the public "should expect continued public ownership of the core assets."

Planned capital investments

Noting that BCTC's capital plan calls for a $2.8 billion investment in "sustainment," growth and operational capital projects, committee members queried the witnesses on a variety of anticipated projects.

Vancouver Island

Stemming from a discussion on BCTC forecasts to meet load growth and customer requests for system reinforcement and expansion, Members asked the witnesses to provide an overview of planned power generation and transmission projects on Vancouver Island, as well as proposals for upgrades to the transmission lines serving northern Vancouver Island —

particularly referencing private sector proposals for power generation facilities near Gold River and Port Hardy.

The board chair replied that in order to avoid undue risk with the power supply on Vancouver Island, BCTC is preparing transmission proposals to accommodate both additional generation provided by a gas-fired project located on Vancouver Island, as well as a program to replace and upgrade the undersea cables that connect Vancouver Island to the mainland's power grid.

With respect to transmission capacity serving northern Vancouver Island, the senior vice president of asset management and system operations stated that the initial transmission line was built only to serve the needs of the northern communities of Vancouver Island. As such, the existing line lacks the capacity to serve large wind farms and other proposals for independent power production in this area.

With regards to the specific power generation projects slated for northern Vancouver Island, the director of communications subsequently provided the Committee with the following written response.

> *Generation additions are becoming the main drivers for Northern Vancouver Island transmission network upgrades, from the historical driver of load growth. There is presently a limited amount of available transmission capacity to transmit power from new generating plants in the north end of Vancouver Island.*
>
> o *Green Island Energy*
>
> *Green Island Energy has proposed a 92 MW generator located near Gold River, connected by an 80 MW rated circuit from Gold River Pulp to the Gold River Substation. There is already a commitment on this circuit of 35 MW. An upgrade of approximately $1 million would provide adequate capacity to deliver the output of Green Island Energy to the Gold River Substation.*
>
> *There are additional transmission limitations south of Gold River, requiring upgrades in the order of $50 million to accommodate the addition of Green Island Energy. Alternatively, the output of the Green Island generation could be restricted, or the generator could be tripped, to deal with these transmission constraints south of Gold River.*
>
> o *Seabreeze*
>
> *BCTC has not received details of the potential generating projects proposed by Seabreeze. We are aware that they have been considering over 400 MW of wind power at the north end of Vancouver Island. Generation additions of 400 MW or more near Port Hardy would require a minimum investment of approximately $160 million (a conceptual estimate with no planning studies done to determine the minimum cost or technical feasibility) for transmission upgrades to deliver the power to mid-Island. Energy losses at this high transfer level could be significant.*
>
> *BCTC's Open Access Transmission Tariff includes a "open season" process by which regional transmission requirements will be clustered, allowing for more efficient planning of facilities and a resulting reduction to individual transmission costs that would be incurred by power producers. The preceding information points relate to specific transmission considerations for the proposed Green Island Energy and Seabreeze projects.*

Interior – lower mainland connections

Members requested additional information on BCTC's proposal to build a new $300 million transmission line that would enhance the connectivity between the proposed upgrades scheduled for the Mica and Revelstoke dams and the lower mainland. In particular, Members inquired whether the new proposal would incorporate enough transmission capacity to support a potential Peace River Site C 900-megawatt development.

In a written response, the director of communications stated that the development of the Peace River Site C dam would also require significant investments in transmission infrastructure, including two new 70 kilometre, 50 kV lines from Site C to an existing switchyard at Peace Canyon; a reinforced Peace transmission system with capability to handle an additional 550 MW; additional voltage control equipment at the Williston, Kelly Lake and Nicola substations; and bolstered connections from interior to the lower mainland.

The communications director also informed the Committee that either the development of the Site C dam or the upgrades to the Mica and Revelstoke dams will facilitate the need for a new transmission corridor between the interior and lower mainland. The level of upgrade in transmission capacity will be dependent upon generation projects put forward by BC Hydro and independent power producers.

BC Clean Rate

Members expressed interest in the BCTC strategy for providing access to independent power producers (IPPs) to the transmission grid. In particular, committee members requested the witnesses to elaborate on the BC Clean Rate — a program designed to promote green power production throughout the province — and the level at which IPPs are required to pay to connect to the main grid.

The vice president of corporate services responded that the BC Clean Rate program was a proposal submitted by BCTC to the British Columbia Utilities Commission, and that it is designed to split the transmission rate into both fixed and variable cost components. Qualifying green energy projects would be required to pay a lower fixed access cost and a variable rate that producers would pay when transmitting power.

In terms of connecting new IPPs to the grid, the witness replied that new power projects typically have to pay up front the costs associated with connecting to the transmission lines; however, costs may be shared among other generators if system upgrade is required to accommodate new generation along the system.

British Columbia Utilities Commission process

Committee members observed that the British Columbia Utilities Commission (BCUC) has recently directed that transmission rates be reduced by 4 percent. Members asked for more information on the BCUC hearings process — particularly whether the capital plan and new tariff rates were considered during the rate reduction hearing.

The vice president of corporate services replied that the Utilities Commission had directed that four separate hearings be conducted concerning BCTC operations. In the first hearing, BCUC approved BCTC's request for a 4 percent reduction in transmission rates, which included a review of the revenue requirements needed to fulfill the ten years of capital spending plans. In

the second review, the Commission evaluated and approved BCTC's capital plan on the basis of potential impact on transmission rates.

The implementation a new tariff will follow a similar pattern: first assessing the revenue requirement of the application and then considering the structure of the rates that recover those costs in the tariff proceeding.

Transmission market integration

BCTC and Grid West

Several Members also asked questions about BCTC's success in coordinating access to US markets. Some Members expressed concerns that the separation of management control over generation and transmission assets has not had the desired effect in providing enhanced export opportunities for BC Hydro and other power producers in the province. Committee members requested an update on the costs associated with aligning British Columbia's interests with that of the American-controlled transmission owners association, Grid West (formerly RTO West).

The witnesses responded that the generation, transmission, and marketing of BC power to the United States has contributed "hundreds of millions of dollars over the years." As a result of several domestic policy disputes within the United States — including battles between state and federal regulators, and disputes between municipal providers and Bonneville Power Administration — BCTC needs to remain at the regional transmission negotiating table to ensure that British Columbia power producers have fair market access.

With respects to costs incurred by BCTC in aligning with Grid West, the senior vice-president of asset management and system operations estimated that the Corporation incurred legal and consultant costs of $2 million to $3 million during the peak negotiations and filings period. Costs associated with promoting access have since declined into "the hundreds of thousands range — $300,000, $400,000 or $500,000." In addition, BCTC has entered into a funding agreement with Grid West for $409,519 US to offset start-up costs. That money will be returned to BCTC once Grid West has obtained its own source of revenues.

BP Cherry Point Co-generation project

Members asked the witnesses to speculate upon the impacts the approval of a 720 MW co-generation facility at Cherry Point, WA will have on BCTC's abilities to export to US markets, given the existing congestion at the Blaine substation in Washington state..

In a written response, the director of communications replied:

> *Although we are not aware of details of the impacts within the US of the proposed Cherry Point generation facility, nor of specific plans that may be in place to support the new plant, we speculate that congestion and constraints south of the BC-US border will increase in the absence of transmission upgrades to support the proposed plant. BCTC continues to monitor developments in this area, and will undertake more detailed analysis on potential impacts as more information on the proposed facility becomes available.*

Committee Recommendations

Recommendation No. 11:
The Committee recommends that British Columbia Transmission Corporation implement the Committee's observations and suggestions for improving BCTC's future annual reports and service plans — in particular with respect to key reporting principles #6 and 9.

Recommendation No. 12:
The Committee recommends that British Columbia Transmission Corporation continue its work in developing a comprehensive capital plan to sustain and grow B.C.'s transmission capacity.

Recommendation No. 13:
The Committee recommends that British Columbia Transmission Corporation work closely with independent power producers and BC Hydro to maximize the number of qualifying projects under the BC Clean Rate program.

Recommendation No. 14:
The Committee recommends that British Columbia Transmission Corporation continue its support of, and work in, Grid West — so as to maximize the returns to British Columbians offered in a regionally-integrated energy market.

SUMMARY OF RECOMMENDATIONS

The Committee recommends:

1. that British Columbia Hydro and Power Authority implement the Committee's observations and suggestions for improving BC Hydro's future annual reports and service plans — particularly with respect to key reporting principles #5, 6, 7 and 11.

2. that British Columbia Hydro and Power Authority continue to develop programs to ensure that it has qualified engineers and skilled tradespersons to meet its future needs relating to electrical operations.

3. that as per its mandate, British Columbia Hydro and Power Authority be required to increase opportunities for independent power producers in the province — particularly proposals which promote reliable and clean power generation.

4. that British Columbia Hydro and Power Authority develop clear and measurable performance indicators to ensure that the increased expenditures in the Power Smart program are achieving the desired results.

5. that British Columbia Hydro and Power Authority continue to protect its interests pertaining to unjust litigation from the United States.

6. that the Insurance Corporation of British Columbia implement the Committee's observations and suggestions for improving ICBC's future annual reports and service plans — in particular with respect to key reporting principles #1, 5, 6 and 8.

7. that the Insurance Corporation of British Columbia continue to work closely with the Ministries of Transportation and Water, Land Air Protection to develop a comprehensive strategy to reduce collisions between automobiles and wildlife.

8. that the Insurance Corporation of British Columbia continue to work closely with the Ministry of Transportation on ways to minimize windshield damage from gravel.

9. that the Insurance Corporation of British Columbia continue its work to provide enhanced customer satisfaction while reducing its reliance on fixed claim centre infrastructure model.

10. that the Insurance Corporation of British Columbia conduct a comparative analysis of staffing levels vis-à-vis the agencies listed in the Ference Weiker & Co. 2004 survey on road safety and loss management programs.

11. **that British Columbia Transmission Corporation implement the Committee's observations and suggestions for improving BCTC's future annual reports and service plans — in particular with respect to key reporting principles #6 and 9.**

12. **that British Columbia Transmission Corporation continue its work in developing a comprehensive capital plan to sustain and grow B.C.'s transmission capacity.**

13. **that British Columbia Transmission Corporation work closely with independent power producers and BC Hydro to maximize the number of qualifying projects under the BC Clean Rate program.**

14. **that British Columbia Transmission Corporation continue its support of, and work in, Grid West — so as to maximize the returns to British Columbians offered in a regionally-integrated energy market.**

APPENDICES

Appendix A: "Key Reporting Principles" Considered by the Committee

Questions	Yes	Partly	Not at All	Comments
1. Does the plan adequately explain the organization's mandate, core products and services, operating environment and major challenges?				
2. Does the plan focus on aspects of performance that are critical to the organization achieving its goals, objectives and intended results?				
3. Are the goals and objectives well defined and consistent with and supportive of the achievement of the mandate?				
4. Is the intended level of performance for the planning period specified?				
5. Are the intended results clear, measurable, concrete and consistent with goals or objectives?				
6. Has the plan demonstrated satisfactorily that intended results represent a reasonable/appropriate level of achievement given - Historical performance - Resources available to the organization, and - Performance of similar organizations				
7. Does the plan demonstrate how resources and strategies will influence results?				
8. Are financial and non-financial performance measures provided to give an integrated and balanced picture of intended performance?				
9. Is the planned contribution of key activities to intended results or goals/objectives adequately demonstrated?				
10. Are actual (Annual Report) and intended (Service Plan) performances set out in a clear comparison?				
11. Are the relevant core principles enunciated by Government policies evident in the planning and operations?				

Other General Comments:

Appendix B: Schedule of Crown Corporations Reviewed

Crown Corporation reviewed	Date of initial review
First Report, 5th Session, 37th Parliament — tabled October 2004	
Land and Water British Columbia Inc	September 9, 2004
Forestry Innovation Investment Ltd.	July 12, 2004
British Columbia Liquor Distribution Branch	May 18, 2004
Third Report, 4th Session, 37th Parliament — tabled February 2004	
Oil and Gas Commission	November 26, 2003
British Columbia Housing Management Commission	November 19, 2003
Second Report, 4th Session, 37th Parliament — tabled November 2003	
Organized Crime Agency of British Columbia	October 8, 2003
Homeowner Protection Office	July 8, 2003
BC Hydro	June 11, 2003
British Columbia Utilities Commission	May 28, 2003
Insurance Corporation of British Columbia	May 8, 2003
First Report, 4th Session, 37th Parliament — tabled May 2003	
British Columbia Securities Commission	October 30, 2002
First Report, 3rd Session, 37th Parliament — tabled November 2002	
BC Transit	October 2, 2002
Tourism BC	October 2, 2002
British Columbia Lottery Corporation	September 4, 2002
BC Buildings Corporation	July 8, 2002

DOCUMENTS DISTRIBUTED

November 3, 2004 Meeting

Letter of Invitation sent to BC Hydro, October 25, 2004.

BC Hydro, *Annual Report 2004*, October 26, 2004.

BC Hydro, *Service Plan for Fiscal Years 2004/2005 to 2006/2007*, October 26, 2004.

BC Hydro, *Shareholders Letter of Expectations*, October 26, 2004.

BC Hydro, Presentation to the Select Standing Committee on Crown Corporations – November 3, 2004, October 29, 2004.

Requested additional materials by members of the Select Standing Committee on Crown Corporations to Stephen Bruyneel, Director, Corporate Communications and Public Affairs, BC Hydro, November 9, 2004.

Independent Power Producers Association of British Columbia, Independent Power Producers Association of British Columbia Submission to the Select Standing Committee on Finance and Government Services (Submission No. FGS-Sub-447).

Requested additional information by Paul Nettleton, MLA to Stephen Bruyneel, Director, Corporate Communications and Public Affairs, BC Hydro, November 15, 2004.

Follow-up correspondence from Stephen Bruyneel, Director, Corporate Communications and Public Affairs, BC Hydro, December 1, 2004.

Follow-up correspondence from Stephen Bruyneel, Director, Corporate Communications and Public Affairs, BC Hydro, January 20, 2005.

December 1, 2004 Meeting

Letter of Invitation sent to the Insurance Corporation of British Columbia, October 26, 2004.

Insurance Corporation of British Columbia, *Annual Report 2003*, November 25, 2004.

Insurance Corporation of British Columbia, *Service Plan 2004 – 2006*, November 25, 2004.

Insurance Corporation of British Columbia, Presentation to the Select Standing Committee Crown Corporations, November 25, 2004.

Requested additional materials by members of the Select Standing Committee on Crown Corporations to Geri Prior, Chief Financial Officer, Insurance Corporation of British Columbia, December 2, 2004.

Follow-up correspondence from Geri Prior, Chief Financial Officer, Insurance Corporation of British Columbia, December 17, 2004.

Correspondence from Geri Prior, Chief Financial Officer, Insurance Corporation of British Columbia requesting changes to Hansard transcript of the December 1, 2004 meeting with the Select Standing Committee on Crown Corporations. December 17, 2004.

Follow-up correspondence from Geri Prior, Chief Financial Officer, Insurance Corporation of British Columbia, December 20, 2004.

Correspondence from Rob Sutherland, Assistant Production Manager, Hansard Research, to Geri Prior, Chief Financial Officer, Insurance Corporation of British Columbia, January 11, 2005.

Correspondence from Geri Prior Chief Financial Officer, Insurance Corporation of British Columbia, to committee members on clarifying witness statements on Hansard, February 7, 2005.

December 6, 2004 Meeting

Letter of Invitation sent to British Columbia Transmission Corporation, October 26, 2004.

British Columbia Transmission Corporation, *Annual Report 2004*, December 2, 2004.

British Columbia Transmission Corporation, *Service Plan 2004 – 2007*, December 2, 2004.

British Columbia Transmission Corporation, Presentation to the Select Standing Committee on Crown Corporations, December 2, 2004.

Requested additional materials by members of the Select Standing Committee on Crown Corporations to Moira Chicilo, Director of Communications, British Columbia Transmission Corporation, December 8, 2004.

Follow-up correspondence from Moira Chicilo, Director of Communications, British Columbia Transmission Corporation, December 23, 2004.